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SUBJECT: FAO 126TH FINANCE COMMITTEE OUTCOMES: FUNDING FOR FOOD SECURITY

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¶1. (U) This message is sensitive but unclassified and for official use only; not for transmission outside USG channels.

Summary

¶2. (SBU) The Finance Committee (FC) of the UN's Food and Agriculture Organization (FAO) held its 126th session from May 11-15 in Rome, concurrent with FAO's Program Committee (PC). A joint session of the two committees was held on May 13. The FC reviewed several items regarding FAO's reform program (the Immediate Plan of Action, or "IPA"), the status of FAO finances (including liabilities, assessments, and arrears), human resource matters, and governance oversight issues - including FAO DG Diouf's plan to host a food security summit in Rome in November 2009. The joint FC/PC session sought to define the idea of "reform with growth" - a phrase included in a 2007 external evaluation of FAO - and its possible impacts on future FAO budgets. Developing states sought to define the term as meaning higher budgets for FAO, regardless of quantitative and qualitative success in FAO's ongoing reform program. Review of IPA implementation was mostly pro forma, as was a review of member state contributions to the IPA Trust Fund (no significant change to figures cited in reftel). Draft Terms of Reference for an Enterprise Risk Management (ERM) study was met with criticism from many members, resulting in a delay of further consideration. On FAO finances, the Chief Financial Officer presented a detailed report, emphasizing the slow pace of member payments in 2009, large arrears, and an enormous obligation for staff after-service medical costs. A USG announcement that it would soon pay its 2008 arrears was well received. Nonetheless, France and others pushed punitive measures to punish late payers. Developing states sought increased support for FAO technical support programs. The absence of the Indian External Auditor during debate elicited criticism, as did a French violation of the agreement on allowing "silent observers." On the DG's vetted summit, Mgmt presented a paper with cost estimates (USD 1.5 - 2.5 million, all from voluntary contributions), a list of four "objectives" for the event, and assurances that substantive preparation would be completed in the context of a separate October conference: "How to Feed the World in 2050." The FC will meet in May to review WFP finances, and in July for its regularly quarterly session. The current FC Chair (Egyptian MFA official based in Cairo) is scheduled to be replaced at the end of 2009. End summary.

126th Session of Finance Committee - Agenda

¶3. (U) The FAO Finance Committee (members listed at paragraph X) met in Rome from May 11-15, to review a lengthy list of topics related to FAO's comprehensive reform plan, the IPA. It also reviewed a list of financial/budgetary items, including FAO investments, staff-related liabilities, member arrears, as well as human resource matters and oversight matters. The following topics were included on its agenda: a report on FAO's budgetary performance, its scale of contributions, terms of reference for

a proposed Enterprise Risk Management study, a review of contributions for the IPA trust fund, findings of a recently-released "Root and Branch" review of FAO administration,

Status of FAO Reform Plans (IPA)

14. (SBU) FAO management provided a broad overview of progress on IPA implementation, noting an overall positive trajectory despite the shortfall in funding for the IPA trust fund to finance 2009 costs of reform. A presentation by the OIG on draft terms of reference for an Enterprise Risk Management study (ERM) - an item included in the 2008 Conference resolution and the IPA - was met with discomfort and criticism, with members questioning expected results and a seemingly high price tag. Discussion of the subject was kicked to the Conference Committee for follow-up to the Independent External Evaluation (CoC/IEE), where Mgmt will attempt to convince a skeptical membership how the ERM study will assist FAO reform. Regarding the IPA trust fund, no major changes in the account were noted. FC members agreed, in light of underfunding and no signs of reprogrammed FAO program funds in sight, additional efforts were needed to encourage additional contributions. The FC reiterated that the IPA was a top priority for the organization which constituted a necessary investment for its future. The FC pressed management to come up with innovative proposals to finance the IPA in part from the regular budget. The FC expressed a willingness to support prudent budget flexibility to fund the IPA in ways that would not undermine the implementation of the 2009 Program of Work for the organization, inter alia, in cases where extra-budgetary resources offer opportunities for freeing up resources from the regular budget.

FAO Financial Snap-Shot, Arrears a Concern

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15. (SBU) FAO's CFO reviewed organization finances, pointing to the relatively slow pace in 2009 of member state dues payments, investment losses in FAO's overall portfolio as a result of the current global economic downturn, and significant long-term obligations for staff after-service medical care. FAO Mgmt noted the requirement in late 2008 to borrow externally to cover expenses. A large amount of arrears over a long period of time continued to "undermine the financial health of the organization," according to the FAO report. Regarding under-funding for after-service medical coverage liabilities, Mgmt noted the figure as exceeding one billion USD, of which USD 787 was unfunded. On the issue of arrears, Mexico inserted language in the FC's final report noting FC concern that nearly half of all FAO members had not paid assessed contributions during the period 2005-09.

A Food Security Summit in November?

16. (SBU) FC members debated a Mgmt paper entitled "Follow-up to Conference Request for Provision of Relevant Information on the Proposed Summit in November 2009: Organizational and Financial Aspects." The discussion was led by one of FAO's top managers, ironically, one who had earlier written DG Diouf to suggest postponing the summit until a later date, citing its likely negative impacts on the organization. The paper insisted costs related to hosting the summit would be between USD 1.5 and 2.5 million, entirely paid for by voluntary contributions (NOTE: Mgmt noted "firm commitments" of one million USD from an undisclosed source, but stated FAO would only solicit additional donations after Council approved the item. END NOTE). Costs, the paper stated, would be entirely related to security and administration, with substantive input completed for a separate October event at FAO entitled: "Feeding the World in 2050" (NOTE: this event remains underfunded, also via voluntary contributions. END NOTE). Mgmt said costs of side events such as a parliamentary gathering (US House and Senate leaders invited), and a private sector event in Milan would be covered by Italy. The US delegation questioned FAO cost estimates, noting the June 2008 High Level Event had cost over USD 4

million. Germany and Mexico also expressed concerns with FAO cost estimates, though final report language contained no references to member doubts, nor any plan to review summit related finances at its next meeting in July. In fact, the Egyptian Chair refused, in the absence of support from other members, to add language proposed by the U.S. to add an agenda item for July session on reviewing summit financial planning if approved by Council.

Defining "Reform With Growth"

17. (SBU) The independent external evaluation (IEE) of FAO contained language referring to "reform with growth" yet left the term undefined. At a joint FC/PG session, members attempted to set parameters for its definition, with developing states insisting it meant larger budgets and "real" growth. OECD countries argued that growth was both "static" and "dynamic" and must reflect growth in both assessed contributions and voluntary funding, the latter having grown exponentially in past years for specific areas such as pandemic and emergency response. A Mgmt paper prepared for the debate stated that the "significant nominal increase in the regular budget for 08-09 was equivalent to zero real growth after taking into account USD 13.3 million in planned efficiency savings and USD 22.1 million of unplanned efficiency savings."

Controversy Over FAO's Technical Support Programs (TCP)

18. (SBU) A perennial area of contention, Mgmt provided a briefing and paper on TCP funding and explanations why the 06-07 biennium funding for TCP had not been fully disbursed. Mgmt also provided a report on TCP funding contributions to FAO's "Initiative for Soaring Food Prices" which provided seeds, fertilizer and other inputs to countries hit hardest by the recent food crisis. Developing country representatives strongly criticized Mgmt for its handling of TCP management, with Pakistan accusing it of using TCP as a "de facto reserve account." Mgmt noted that full and early funding for TCP was impossible, as some reserve was required for emergencies. Mexico noted that "more money would not solve problems" with TCP, and called for general improvements to FAO delivery. Noting an IPA decision to decentralize to FAO's five Regional Offices responsibility for TCP programs and funding by 2010, Mgmt suggested the possibility of using some unspent TCP funds for training of FAO Regional Office staff in TCP management. Mgmt noted the need to link TCP with broader reforms, to ensure compatibility with FAO's new Strategic Framework, Results-Based management, and its future Programs of Work and Budget.

Membership of Finance Committee

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19. (U) Current membership of the FAO Finance Committee is comprised of 11 members: Egypt (Chair), USA (Deputy Chair), Cameroon, China, Denmark, France, Germany, Mexico, Pakistan, Panama, and Uganda. Member representatives of Pakistan and the U.S. are scheduled to depart Rome this summer. The Chair of the FC (currently Egyptian MFA official Yasser Sorour) requested the Egyptian government to allow Sorour to remain as Chair for the remainder of the year, despite Sorour's full-time posting in Cairo at the MFA as Deputy Director of the UN Affairs Division. Discussions on a replacement to Sorour on the FC have not yet taken place within the committee.

Comment

10. (SBU) The DG appeared for the Joint Program and Finance Committees meeting to reiterate his commitment to full implementation of the IPA reform program. Nevertheless, he remains hesitant to agree to internal reprogramming of regular program funds to offset at least part of the 2009 costs of reform. Top FAO management report that the DG now recognizes that IPA implementation will serve his own interests in delivering a lasting "legacy" - but notes that a number of G-77 members are lobbying forcefully against any reprioritization of

regular budget funds, fearing that programs of particular
interest to individual countries might be cut. End comment.
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